

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON  
Friday, August 20, 1999  
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. James Jenkins, Chairman, Arizona State Retirement System Board called the meeting to order at 9:04 A.M., M.S.T.

The meeting was teleconferenced to the ASRS office, 7600 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call.**

Present: Mr. James Jenkins, Chairman  
Dr. Chuck Essigs, Vice Chairman  
Dr. Merlin DuVal  
Mr. Alan Maguire (via teleconference)  
Mr. Norman Miller  
Mr. Karl Polen  
Mr. Ray Rottas

Excused: Mr. David Borg  
Mr. Jim Bruner

A quorum was present for the purpose of conducting business.

Mr. James Jenkins, Chairman, presented a plaque to Mr. Karl Polen in appreciation for his service as Chairman of the Arizona State Retirement System Board for the fiscal year 1998/1999 term.

**2. Approval of Minutes of the July 16, 1999, Regular Meeting of the Arizona State Retirement System Board.**

**Motion:** Mr. Norman Miller moved to approve the minutes of the July 16, 1999, regular meeting of the ASRS Board.

Dr. Merlin DuVal seconded the motion.



By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

### 3. Board Approval of Consent Schedule.

**Motion:** Mr. Norman Miller moved that the ASRS Board approve the System Transfers, and Applications and Agreements between Employers and the Arizona State Retirement System.

Mr. Ray Rottas seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

### 4. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending June 30, 1999.

Mr. Terry Dennison, Principal, Mercer Investment Consulting presented the ASRS Total Fund Performance for the period ending June 30, 1999.

#### *Total Fund Performance for Periods Ending June 30, 1999*

	<b>Qtr</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Total ASRS Fund</b>	5.2	16.8	19.5	18.6	14.2
<b>Benchmark</b>	3.6	14.2	18.0	17.3	13.6
<b>TUCS Public Fund Median</b>	5.0	10.4	16.0	16.3	12.5

#### *Performance vs. Benchmarks for the 3 Years Ending June 30, 1999*

	<b>Port ROR</b>	<b>Bmk ROR</b>	<b>Assumed ROR</b>	<b>Port SD</b>	<b>Bmk SD</b>	<b>Assumed SD</b>
<b>Total ASRS Fund</b>	19.5	18.0	9.3	11.8	10.5	10.2
<b>Domestic Equity</b>	28.3	29.1	10.2	17.1	16.2	16.2
<b>Domestic Fixed</b>	7.3	7.2	7.0	4.1	3.6	7.0
<b>International Equity</b>	11.0	9.1	10.6	19.6	19.2	19.7

#### *Performance vs. Benchmarks for the 5 Years Ending June 30, 1999*

	<b>Port ROR</b>	<b>Bmk ROR</b>	<b>Assumed ROR</b>	<b>Port SD</b>	<b>Bmk SD</b>	<b>Assumed SD</b>
<b>Total ASRS Fund</b>	18.6	17.3	9.3	9.5	8.5	10.2
<b>Domestic Equity</b>	26.7	27.9	10.2	13.6	12.9	16.2
<b>Domestic Fixed</b>	8.4	7.8	7.0	5.3	4.3	7.0
<b>International Equity</b>	9.4	8.5	10.6	15.1	14.8	19.7



Mr. Dennison reported that the ASRS is in the third percentile of the TUCS Public Fund Median. Mr. LeRoy Gilbertson, Director inquired how many funds are included in TUCS. Mr. Dennison stated there are 300 - 400 funds ranging between \$50 million - \$100 billion. Mr. James Jenkins requested that Mercer Investment Consulting, Inc. create a series of graphs comparing the ASRS total fund rates of returns to various TUCS universes including Large Funds, Public Funds, and Large Public Funds.

Mr. Jenkins also requested Mercer to complete an analysis explaining why the ASRS total fund has outperformed both the Benchmark, as well as the TUCS public universe over the 1, 3, 5, and 10-year periods.

**Dr. Chuck Essigs was excused at 9:40 a.m.**

# **5. Presentation, Discussion and Appropriate Action Regarding the Performance of Domestic Fixed Income Managers for the Period Ending June 30, 1999.**

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the Investment Manager's performance for the Arizona State Retirement System (F1), BGI Barclays Global Investors, BlackRock, JP Morgan Investment Management, Inc., and Western Asset Management Company for the period ending June 30, 1999.

Mr. Paul Matson, Senior Investment Manager and Mr. Gary Dokes, Portfolio Manager and Trader reported on the Arizona State Retirement System's (F1) performance for the period ending June 30, 1999.

	<b>Quarter</b>	<b>Inception*</b>
<b>Sector Selection</b>	(0.03)	(0.01)
<b>Stock Selection</b>	(0.03)	(0.02)
<b>Other</b>	(0.02)	(0.00)
<b>Fees</b>	(0.00)	(0.01)
<b>Total Value Added</b>	<b>(0.08)</b>	<b>(0.04)</b>

\* As of 3/31/98

Mr. Larry Tint, Vice Chairman reported on BGI Barclay Global Investors' performance for the period ending June 30, 1999.

<b>Int Govt Bond Index Fund</b>	<b>Quarter</b>	<b>Inception*</b>
<b>Tracking Differential</b>	(0.01)	0.07
<b>Fees (% annual)</b>	(0.004)	(0.0175)
<b>Total Value Added</b>	<b>(0.01)</b>	<b>0.05</b>

\* As of 11/30/95

<b>Int Corp Bond Index Fund</b>	<b>Quarter</b>	<b>Inception*</b>
<b>Tracking Differential</b>	(0.14)	0.03
<b>Fees (% annual)</b>	(0.004)	(0.0175)
<b>Total Value Added</b>	<b>(0.14)</b>	<b>0.01</b>

\* As of 11/30/95



<b>Long Corp Bond Index Fund</b>	<b>Quarter</b>	<b>Inception*</b>
<b>Tracking Differential</b>	(0.26)	(0.21)
<b>Fees (% annual)</b>	(0.004)	(0.0175)
<b>Total Value Added</b>	<b>(0.26)</b>	<b>(0.23)</b>

\* As of 11/30/95

<b>Mtg-Backed Securities Index Fund</b>	<b>Quarter</b>	<b>Inception*</b>
<b>Tracking Differential</b>	0.02	0.11
<b>Fees (% annual)</b>	(0.004)	(0.0175)
<b>Total Value Added</b>	<b>0.02</b>	<b>0.09</b>

\* As of 11/30/95

**Due to Mr. Alan Maguire needing to be excused from the meeting, he wished to express his sentiments regarding agenda item 8.**

Mr. Maguire requested that future extensions of investment related contracts be included on the agendas as Board Consent Agenda Items two months prior to the renewal period to allow sufficient time if action needs to be taken.

Mr. Phil Matthews, Managing Director and Ms. Sandra Familet, Vice President reported on BlackRock's performance for the period ending June 30, 1999.

	<b>Quarter</b>	<b>Inception*</b>
<b>Duration/Yield Curve Management</b>	(0.06)	(0.23)
<b>Security Selection/Sector Allocation</b>	(0.10)	0.43
<b>Fees (using straight line method)</b>	(0.04)	(0.09)
<b>Total Value Added</b>	<b>(0.20)</b>	<b>0.11</b>

\* As of 12/1/98

**Mr. Alan Maguire was excused from the meeting at 10:45 a.m.**

Mr. Luke Farrell, Vice President, Portfolio Manager reported on JP Morgan Investment Management, Inc.'s performance for the period ending June 30, 1999.

	<b>Quarter*</b>	<b>1 Year</b>	<b>3 Years</b>
<b>Duration Management</b>	(0.10)	0.16	0.27
<b>Sector Emphasis</b>	(0.04)	(0.16)	(0.14)
<b>Security Selection</b>	(0.04)	(0.24)	(0.20)
<b>Fees</b>	(0.03)	(0.14)	(0.14)
<b>Total Value Added</b>	<b>(0.21)</b>	<b>(0.38)</b>	<b>(0.21)</b>



Mr. Joseph Carieri, Client Service Executive reported on Western Asset Management Company's performance for the period ending June 30, 1999.

	<b>Quarter</b>	<b>Inception*</b>
<b>Duration</b>	-30 bp	-66 bp
<b>Yield Curve</b>	12 bp	6 bp
<b>Sector Selection</b>	10 bp	10 bp
<b>Issue Selection</b>	8 bp	10 bp
<b>Total Value Added</b>	<b>0 bp</b>	<b>-40 bp</b>

\* As of 12/3/98

**Dr. Chuck Essigs returned to the meeting at 11:20 a.m.**

**6. Presentation, Discussion and Appropriate Action Regarding Responses Related to the Previous Asset/Liability Presentation by Callan Associates at the June 11, 1999, Board Meeting; and Regarding the Callan Associates Engagement Related to the Active/Passive Study.**

Mr. Paul Erlendson, Senior Vice President and Mr. Jay Kloepfer, Director of Capital Market Research, Callan Associates responded to outstanding requests from the June, 1999, Asset/Liability presentation and presented the second of three studies – Active vs. Passive Strategies.

Mr. Karl Polen inquired about the significance of the asset allocation ranges in relationship to the TAA. Mr. Polen pointed out that Callan indicated a plus or minus 4% range on both Domestic Equity and Domestic Fixed and asked if their intention of having 8% in TAA was one way of implementing the range. Mr. Erlendson responded that Callan had the following intentions:

- ❑ Callan believes that almost any risk the ASRS has taken in the last decade has been rewarded so risk control, in large measure, hasn't been tested. Going forward, Callan feels it will be more important to spend time on risk management, and not just on managing returns.
- ❑ With respect to TAA, the asset allocation ranges are the ranges on the total plan that managers would have control over, if the ASRS kept every other component on target.

**Mr. Ray Rottas was excused from the meeting at 11:37 a.m.**

Mr. Norman Miller and Mr. LeRoy Gilbertson addressed their concern with the confusion of Callan mixing definitions of active versus passive management. Future discussions will be held to clarify the ASRS and Callan's interpretation of these meanings.



**7. Presentation, Discussion and Appropriate Action Regarding the Postponement of Further Funding of the Arizona Commercial Mortgage Portfolio Until Subsequent Board Action is Taken Concerning the Retention or Non-Retention of the Arizona Commercial Mortgage Portfolio.**

Mr. Karl Polen, Chairman, Investment Review Board Committee (IRBC) reported to the Board that the IRBC met to discuss the postponement of further funding of the Arizona Commercial Mortgage Portfolio.

**Motion:** Mr. Karl Polen moved that further funding of the Arizona Commercial Mortgage Portfolio be postponed until subsequent Board action is taken concerning the retention or non-retention of the Arizona Commercial Mortgage Portfolio.

Mr. Norman Miller seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

**8. Presentation, Discussion and Appropriate Action Regarding the Extension of Future Investment Related Contracts Through the Utilization of Board Consent Agenda Items.**

Mr. Karl Polen, Chairman, Investment Review Board Committee (IRBC) reported to the Board that the IRBC met to discuss the extension of future investment related contracts.

Mr. Polen reiterated Mr. Alan Maguire's request that future extensions of investment related contracts be included on the agendas as Board Consent Agenda Items two months prior to the renewal period to allow sufficient time if action needs to be taken.

**Motion:** Mr. Karl Polen moved that future extensions of investment related contracts be authorized through the utilization of Board consent agenda items at least two months prior to expiration.

Mr. Norman Miller seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

**9. Presentation, Discussion and Appropriate Action Regarding the Appointment of a Deputy Director for External Operations.**

**Motion:** Mr. Norman Miller moved to appoint Mr. Tom Augherton as the Deputy Director for External Operations.

Dr. Merlin DuVal seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.



## **10. Director's Report**

Mr. LeRoy Gilbertson stated he had no additional items beyond the materials provided to the Board.

## **11. Board Requests for Agenda Items.**

There were no requests for agenda items.

## **12. Call to the Public.**

There were no requests to speak from the Phoenix or Tucson public.

## **13. The next ASRS Board meeting is scheduled for Friday, September 17, 1999, at 9:00 a.m. in the 10<sup>th</sup> Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012.**

## **14. Adjournment of the ASRS Board.**

Mr. James Jenkins, Chairman adjourned the August 20, 1999, regular meeting of the ASRS Board at 12:25 p.m.

Respectfully submitted,

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Jalene Trivino, Secretary

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Date

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LeRoy Gilbertson, Director

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Date